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UNCLAS KINGSTON 001758

SIPDIS

STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

E.O. 12958: NA

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SUBJECT: BUSINESS CONFIDENCE REMAINS STRONG

1. Buoyed by improved economic performance and favorable financial prospects for individual firms, Jamaican business confidence remained strong during April to June 2005. In fact, business confidence during the first two quarters of 2005 was higher than at any other time in the four-year history of the surveys. While consumer confidence waned relative to the first quarter, it remained well above 2004 levels. This according to the latest survey of business and consumer confidence conducted by Professor Richard Curtin of the University of Michigan on behalf of the Jamaica Conference Board.

2. Based on the survey released on July 5, business confidence remained strong during the second quarter of 2005, with firms in all industries and of all sizes anticipating a surge in economic performance and improved financial prospects for their firms. This is not surprising given that 33 percent of businesses reported greater than expected profits in the June quarter, the highest proportion of firms since the inception of the survey. In addition, over 40 percent of all businesses thought it was a good time to expand output due to declining interest rates and the memorandum of understanding between the GOJ and trade unions.

3. Almost 66 percent of all firms expected a faster or unchanged pace of economic growth during upcoming periods, the fifth consecutive quarter of optimistic outlook for the economy. This bullish mood was underpinned by reduced interest rates, stability in the foreign exchange market and increased foreign direct investment. Similarly, over 62 percent of Jamaican firms expected their financial performance to improve during the year ahead. Business survey responders were quick to point out that increasing oil prices and the persistence of crime were the two major barriers to faster economic growth. In fact, firms pointed out that their capital expenditure would increase if the costs and uncertainty associated with crime and violence were removed. Additionally, almost 85 percent of all firms surveyed expected inflation to increase in the year ahead.

4. According to the survey, consumer confidence in the June quarter declined relative to the first quarter of 2005, but remained above 2004 levels. However, nearly all the second quarter loss in confidence occurred in Kingston due largely to crime, high taxes, increased inflation and unemployment. While consumers had a favorable view of the current state of the economy, they were less upbeat about future economic prospects. Consumers like businesses were quick to point to the adverse impact of rising prices and higher taxes as well as persistent crime. Jamaicans also continued to hold a negative view of employment opportunities, with 85 percent of those surveyed citing the lack of job opportunities. When asked about the future prospects, consumers voiced the most pessimistic view in two years. Over 33 per cent of Jamaicans surveyed expected to receive remittances, with over half reporting an increase in the amount received during the past three years. Consumers expressed less favorable purchase plans than in previous surveys, despite the expectation of higher remittances and increased income to cushion the inflationary impact.

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